Europeans are Fighting "Fat Cat" Entitlements, So Should We
by Heather Gautney, PhD

In terms of wealth and income parity, the United States has become one of the most unequal countries in the world. Just 1 percent of Americans own about 40 percent of our wealth, gaining all of the nation's income growth from 2009-2011. The income of the average middle class family is lower today, in real dollars, than it was 17 years ago. And 46 million people live in poverty, including about one in five children.

CEO pay scales are both a symptom and cause of these terrible trends. The Economic Policy Institute reported that the CEO-to-worker compensation ratio was 18-to-1 in 1965, peaked at 411-to-1 in 2000, and settled at 209-to-1 in 2011. According to the AFL-CIO, top execs make at least 380 times more than the average worker. Some make more in a single day than their employees make in an entire year.

CEO compensation often includes stock options and bonuses that give multi-million dollar incentives to produce short-term gains. Executive pay packages have created an incentive for accounting fraud at Enron and Worldcom, and they are said to be the culprit for the excessive risk-taking at Lehman Brothers and Bear Stearns that helped tank the world economy.

How do corporate giants bank record profits in the short-term, even when the overall economy is hurting? They lay off workers, squeeze productivity out of overworked employees, gut their own companies, and evade taxes by stashing profits in the Caymans—the kind of vulture capitalism that made Mitt Romney and Bain Capital rich, famous, and worthy of the Republican nomination.

They also extract wealth, including natural resources, from other countries. The IMF foreshadowed such practices beginning in the late '70s, siphoning wealth from developing countries through the mechanism of debt (or regime change), leaving whole economies in shambles, and without self-determination. Now deficits in advanced industrial nations are being used as an excuse to impose austerity—cutting programs like Social Security, Medicare, and Medicaid for everyday people, and privatizing them into objects for the same kind of short-term profitmaking that collapsed our economy.

Defenders of high pay levels argue that corporate executives are our nation's job creators. If only that were true. Despite a record-high Dow and soaring corporate profits, our workforce remains stymied at an estimated 8 percent unemployment, a gross underestimate if you include those actively looking for work. The truth is, employers are admittedly content with boosting productivity and racing workers to the bottom. As Robert E. Moritz, Chairman of PricewaterhouseCoopers, put it: "Right now, CEOs are saying 'I don't really need to hire because of the productivity gains of the last few years.'" According to Julia Coronado, chief North American economist at BNP Paribas, they'd rather "invest in the global economy," which is code for moving jobs overseas.

Europeans are resisting these trends, with some bold legislative turns on CEO pay. In Switzerland, known for its sophisticated offshore banking sector, two-thirds of voters supported a recent "fat cat initiative"—a referendum that bans golden handshakes and parachutes (bonuses for joining or leaving a company) and gives shareholders a binding say on executive pay. It's the world's most stringent rule of its kind to date, and noncompliance carries hefty fines and jail time. With economic recession in full swing, pressures to follow suit are mounting throughout the continent, including Germany, Europe's largest, fiscally solvent country. Swiss activists themselves are now campaigning to prevent executives from being paid more than 12 times the wage of their lowest paid employee.

The Swiss referendum comes on the backs of a new deal among members of the European Union to cap banker bonuses to no more than a year's salary, down from the typical five to ten times their fixed pay rates. And last December, a critical majority agreed to implement a tax on financial transactions to raise recovery funds (expected to raise $45 billion annually) and curb the kind of wild speculation seen in the housing market. Similar legislation has been introduced here in the U.S., but to no avail.

President Hollande has begun to address France's widening wealth gap by limiting executive pay at state-controlled companies to 20 times that of the lowest paid worker, putting the hurt on CEOs in a big way. Henri Proglio, CEO of Électricité de France, could see his annual salary cut by 68 percent – from $1.9 million to $621,000 – in order to comply with the 20 to 1 ratio. Areva president Luc Oursel may see his salary halved and Jean-Paul Bailly, head of the postal service, could be out 41 percent of his pay.

In the land of fire and ice, Icelanders overcame a major economic crisis that tanked the stock market by 90 percent and increased unemployment nine-fold with a "peoples' bailout" that included debt write-offs and mortgage subsidies. Iceland took IMF money (which they've already repaid), but wisely refused structural adjustment. And it prosecuted bankers at the center of the crisis, some of whom are now doing jail time. Perhaps most telling, the country's leadership engaged the public in a rewriting of the country's constitution, setting the foundation for a radical grassroots system of direct democracy.

The U.S responded to its homegrown crisis with Dodd-Frank, which encourages shareholder input, or "say-on-pay," for CEO salaries and requires companies to disclose pay ratios between their highest and median pay-level employees. Citigroup's Vikram Pandit got a rude awakening last year when shareholders rejected his $15 million compensation package. Despite a two-year lapse since the bill passed, however, the pay-gap provision has yet to be implemented, in an obvious buckle by the SEC under the pressure of the corporate lobby.

Strengthening our say-on-pay legislation and holding federal regulators accountable are crucial for narrowing the income gap. But they're also vital to the health of our democracy. The Supreme Court *Citizens United v. FEC* decision removed limits to corporate spending on federal campaigns, further narrowing the ability of everyday people to have a say in their government. But it also created a loophole. As it stands, shareholders do not have a legal say-on-pay with regard to campaign contributions, and thus may be unwittingly supporting political platforms they actually oppose.

Reining in CEO pay is not about killing incentives or punishing success, as free market ideologues contend. It is simply a matter of value. A more equitable arrangement acknowledges the value that hardworking people bring to our economic institutions and the social wealth of our country. And it exposes the outrageous over-valuation of investment bankers and corporate execs—inventors of financial products and management techniques with questionable social value. Certainly subprime loans and derivatives are not 200 to 300 times the worth of what our teachers, engineers, nurses, and librarians contribute to the health and well-being of our society.

The American people agree. Polls show that over 70 percent of voters favor restrictions on executive pay, including self-identified conservatives. An end to "fat cat" entitlements and realignment of incomes may not solve all of our social and political woes, but it would improve the lives of a great many working people, sending a strong message that no one is above the law and no corporation too big to fail.